

**PUBLIC EMPLOYEES RETIREMENT BOARD**  
**Employee Investment Advisory Council**  
**100 North Park**  
**Helena MT 59601**  
**December 4, 2003**

Kathy Samson, Council Chair with the following in attendance, called the meeting to order:

Council Members:

Kathy Samson, Council Chair  
Ron Alles, Local Government Employee Representative  
Lorraine Reid, Local Government Employee Representative  
Glen Leavitt, University System Representative  
Jim Penner, Board of Investments Representative  
John McEwen, State Employee Representative  
Angela McDannel, State Employee Representative  
John Northey, State Employee Representative  
Pam Fleisner, School District Employee Representative  
Jim Christnacht, Retired Public Employee Representative

Council Members who were excused for travel:

Tom Schneider, Labor Organization Representative  
Tom Bilodeau, Labor Organization Representative

Others in attendance are as follows:

MPERA staff: Mike O'Connor, Keith McCallum, Melanie Symons, Kelly Jenkins, Kim Flatow, Carolyn Miller, and Roxanne Minnehan. PERB members: Terry Teichrow, Carole Carey, Jay Klawon, Betty Lou Kasten, Bob Griffith, Troy McGee, and Jim Pierce. Also in attendance were: House of Representatives: Dave Kasten, Montana State Fireman's Association Members: Matt Norby and Douglas H. Neil, PERS Member: Gary Quenzer, TIAA-CREF MPPA Lobbyist: Jim Kembel, Great West Staff: Yvette Stanley, and potential new EIAC members: Kevin McRae and Terrence Smith.

HOUSEKEEPING ITEMS

John Northey moved to accept the minutes of the May 13, 2003 EIAC meeting; Glen Leavitt made the second, the motion passed with none opposed. The May 13, 2003 EIAC minutes are now available on our website. The December 4, 2003 EIAC minutes will be available after approval. The website is:

<http://www.discoveringmontana.com/doa/perb/perb.htm>

## FUTURE TRAINING FOR EIAC COUNCIL MEMBERS

### Potential resources for educational information include:

- The Board Of Investment Bi-annual presentation
- The glossary of terms, index descriptions, and explanation of characteristics in the back of the Arnerich Massena & Associates, Inc.
- Jim Penner puts out a quarterly letter that may benefit EIAC
- State Personnel issues an employee profile that may be beneficial
- Dan Sullivan's Financial seminars: offer investments, insurance, estate planning, and diversification
- The State Pre-Retirement seminars cover savings and investments
- Retired Group Presentation done by Mike O'Connor and Jim Penner

Kathy will try to arrange training for the council members.

## EIAC APPOINTMENTS CONTINGENT ON PERB APPROVAL

### For reappointment to three-year terms from 8/01/03-7/31/06

- Glen Leavitt, Angela McDannel, Lorraine Reid, and Tom Schneider

### To serve the remainder of John McEwen's State Employee Representative Term, which expires 7/31/04

- Kevin McRae

### To fill the vacant Local Government Representative Position, which expires 7/31/04

- Terrence Smith from Big Sky County Water and Sewer

## QUESTIONABLE TRADING PRACTICES OF MUTUAL FUNDS

- Scott Farris of Arnerich Massena & Associates, Inc. sent a letter to Kathy on October 21, 2003, outlining questionable trading practices amongst some mutual funds.
- Arnerich Massena & Associates, Inc feels there is no concrete, absolute information to communicate to plan participants and recommends that EIAC take no action at this time.
- Arnerich Massena & Associates, Inc. will send a letter to our plan(s) mutual funds that are currently under investigation.
- In the 457 Plan: Janus Balanced Fund, Janus Worldwide Fund, and Strong Opportunity Funds appear to be suspect.
- In the 401(a) Plan: Janus Mid-Cap Value Fund, who is sub-advised by Wolf & Donnelly, may not be under investigation
- Scott is providing frequent updates to Kathy, and will continue to observe the situation and keep EIAC apprised as necessary.
- All 457 and 401(a) plan funds performance will continue to be reviewed under our current guidelines in the annual review.

#### 457 PLAN ASSET ALLOCATION FUNDS

- The 457 plan currently offers five Asset Allocation Funds that are provided by Great West.
- The PERB gave directive for EIAC to move to three Asset Allocation Funds on March 28, 2002.
- EIAC arrived at three proposed custom profile funds on May 13, 2003.
- EIAC discussed the potential benefit of creating their own funds versus utilizing pre-established funds.
- Jim Penner and Scott Farris created the objective for EIAC to create three of their own internal custom asset allocation funds, the underlying funds within and the proposed structure for the funds.
- Current participation utilization in the Great West profile funds is low. EIAC expressed a need to know if it would be worthwhile to create internal custom asset allocation funds, because of the cost associated with these funds.
- Creating custom funds was tabled until EIAC determined more about participant's needs.

#### 457 PLAN PARTICIPANT SURVEY

Deferred Comp Survey – On May 22, 2003 the PERB unanimously agreed to accept and approve the EIAC recommendations to develop a survey regarding the 457 Plan and to not make changes in the asset allocation funds until further information is known. Staff has met with the University of Montana, who will develop the survey for \$16,000. At the June 26, 2003 meeting, the Board agreed to spend \$4,000 on a 457 survey if Great-West could provide the additional \$10,000 it would cost. Great-West does not have the ability to provide that much money. On July 15, 2003, staff met with an EIAC subcommittee to devise a list of topics they would like to have surveyed. Kathy reviewed these topics at the August 28, 2003 PERB meeting.

A web-based survey was considered, but it would have no statistical validity because there is no way to monitor the number of times a person may respond or who responds to the survey. Board members had been under the impression the survey would be done as a work project by University students. However, that would not be a scientific survey and there would also be question about its validity. Staff will check with the University of Montana to see what they can do for \$4,000, or less.

At the December 4, 2003 EIAC meeting Ron Alles expressed a preference to have a statistically correct survey filled out by 25 people that represented the necessary cross sections rather than use unscientific data. Ron stated the need to be cognizant that they may be making decisions based on data that is not statistically valid. John Northey agreed with Ron, stating the need to be awfully careful of how you proceed based upon data that is not statistically valid. John McEwen felt that cost of \$16,000 for a scientific survey was not bad compared to the \$2 million in assets in the plan.

457 Deferred Compensation Plan August 2003 Survey Topics - John Northey would like to add a question to determine why non-participating State Workers don't belong to the 457 Plan and the reasons why they don't belong. Kathy asked the EIAC and the PERB to review the list of topics and to let her know if there is anything they

would like to see added. Kathy will move forward and develop some questionnaires with a stronger format than the survey topics and check into surveymonkey.com.

### ANNUAL RECURRING WORK

Annual Review of Investment Options Process - The Asset Allocation Funds and the normal review process are still on the board and will be discussed later.

Investment Policy Statement Review - John Northey moved to continue to recommend to the PERB to leave the IPS as they are, with the 457 closed funds defaulting to the Stable Value Fund and the 401(a) Defined Contribution closed funds defaulting to the Vanguard Balanced Index Fund. Angela McDannel made the second. The motion passed with nine votes in favor and one opposed. John McEwen felt that the closed funds should be mapped to the replacement fund.

### PERB DIRECTED PENDING WORK

457 Self-Directed Brokerage Options; There will be a question on this in the survey, which will inform the council of the potential participant utilization. The council can then analyze whether to offer Self-Directed Brokerage Options in the 457 Plan.

Advice for both plans; Federal guidance waivers between their advice for plans. Staff will track the federal legislation and congress decisions. The survey will provide information to the council on what the participant's expectations may be for information and education that MPERA provides to them. This information will enable EIAC to move forward.

### OTHER PENDING WORK

Great West has asked MPERA to review material to put into an enrollment booklet for the 457 Plan participants. This booklet will be a valuable reference tool that will explain the nuts and bolts of the plan, discuss minimums and maximums, talk about risk analysis, walk through risk profiles, list the investment options, and the asset allocation funds.

### CLOSING BUSINESS

Jay Klawon expressed his personal appreciation for the amount of work that EIAC does in narrowing down issues and making recommendations to the PERB.

The next meeting will start with the annual fund review and was set tentatively for March. Meeting adjourned.

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